



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Required Report - public distribution

Date: 5/1/2002

GAIN Report #HK2019

Hong Kong

Tobacco and Products

Annual

2002

Approved by:

Lloyd S. Harbert

U.S. Consulate, Hong Kong

Prepared by:

Caroline Yuen

Report Highlights:

Cigarette production in 2001 increased 13% from 2000 to 11,136 million sticks. Only 0.3% of local production is for domestic consumption while the rest is for exports. Hong Kong smokers occupy about 14.4% of the adult population. Smokers percentage of adult population has been decreasing over the years as the HK government adopts an anti-smoking policy. In 2001, the government has proposed to amend the smoking ordinance to ban smoking in almost all public indoor areas. Smuggled cigarettes are estimated to take up 33% of domestic consumption.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Hong Kong [HK1], HK

Table of Contents

Section 1.	Situation and Outlook	1
Section II.	Statistical Tables	3
	PS&D Table	3
	Trade Matrices	4
Table 1	Retail and Wholesale Price Table of Cigarettes by Brands	6
Table 2	C.I.F. Price Table of Cigarettes by Countries in US\$/thousand sticks	7
Table 3	Hong Kong Cigarette Imports by Volume, in million sticks	7
Table 4	Hong Kong Cigarette Import by Value, in USD million	8
Table 5	Hong Kong's Cigarette Total Exports by Volume, in million sticks	8
Table 6	Hong Kong's Cigarette Domestic Exports by Volume, in million sticks	9
Table 7	Hong Kong's Cigarette Re-exports by Volume, in million sticks	9
Production	10
Consumption	10
Trade	11
Marketing and Policy	12

Section 1. Situation and Outlook

There are three cigarette production plants in Hong Kong. Only 0.3% of local production is for the domestic market, while the majority is for exports to China and South East Asian countries. Due to expanded production capacity in Nanyang Brothers several years ago and increased demand in export markets, cigarette production in 2001 increased 13% from 2000 to 11,136 million sticks. This production level has not yet reached full capacity. Local production still has room to expand in the future provided there is increased demand in export markets.

There are about 804,200 smokers in Hong Kong occupying 14.4% of all persons aged 15 or above. Daily smokers have an average consumption of 15 cigarettes per day. The peak of cigarette consumption in Hong Kong was in the 1970's and the percentage of smoking population has been decreasing over the years. The percentage of daily smokers of all persons aged 15 and above was as high as 23.3% in 1982 compared to 12.4% in 2000.

Hong Kong smokers prefer American type cigarettes. Nine out of the 10 popular brands in Hong Kong are of American brands. Marlboro has been the most popular brand for years. However, some smokers tend to opt for lower-priced cigarettes in the midst of an economic downturn. Another factor worth mentioning is that Hong Kong people are getting more health conscious. The popularity of cigarettes with low tar yields and nicotine has been on the rise. The average tar yield of cigarettes in Hong Kong is 11.2 mg per cigarette while the law prohibits the sale of any cigarettes exceeding the tar yield level of 17 mg per cigarette.

Hong Kong imported 19,683 million of cigarettes from the world. The actual amount factoring in smuggled quantity should be around 21,158 million sticks. It is estimated that approximately 33% of cigarettes consumed locally were smuggled in. Smuggled cigarettes detected by the Hong Kong government in 2001 were as many as 340 million sticks. The current duty for cigarettes stands at HK\$804 per 1000 sticks.

The Hong Kong government adopts an anti-smoking stand. Subsequent to amending its Smoking (Public Health) Ordinance in 1997, it has proposed to amend the Ordinance again with an objective to further restrict indoor smoking and advertising and to protect the public from passive smoking. The proposed amendments were released last year. There are two main streams of views: one supports the amendments on the grounds of public health; while another opposes the changes saying that the stringent anti-smoking policy prohibiting smoking in all restaurants will render a severe blow to business. The government commissioned a study on the economic impact of the proposed amendments. The study has been completed. Presently, the government is revising the proposed amendments and is planning to present to the Legislative Council for vetting by the end of 2002.

Section II. Statistical Tables

PS&D Table

PSD Table						
Country	Hong Kong					
Commodity	Tobacco, Mfg., Cigarettes				(MIL PCS)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Filter Production	6700	9859	0	11136	0	12200
Non-Filter Production	0	0	0	0	0	0
TOTAL Production	6700	9859	0	11136	0	12200
Imports	25415	24200	0	21158	0	21500
TOTAL SUPPLY	32115	34059	0	32294	0	33700
Exports	26485	28159	0	27831	0	29192
Domestic Consumption	5630	5900	0	4463	0	4508
TOTAL DISTRIBUTION	32115	34059	0	32294	0	33700

Note : Figures in the trade matrices and PS&D table do not match because the latter includes estimated figure of smuggled cigarettes while figures in the trade matrices are official Hong Kong Census and Statistics Department data and do not include estimates of smuggled cigarettes.

Trade Matrices

Import Trade Matrix			
Country	Hong Kong		
Commodity	Tobacco, Mfg., Cigarettes		
Time period	Jan - Dec	Units:	million pieces
Imports for:	2000		2001
U.S.	3740	U.S.	3189
Others		Others	
UK	6625	UK	5549
China	3241	China	3783
Switzerland	3562	Switzerland	2112
Malaysia	2480	Malaysia	1798
Germany	1618	Germany	1555
Japan	550	Japan	1138
Total for Others	18076		15935
Others not Listed	523		559
Grand Total	22339		19683

Export Trade Matrix			
Country	Hong Kong		
Commodity	Tobacco, Mfg., Cigarettes		
Time period	Jan - Dec	Units:	million pieces
Exports for:	2000		2001
U.S.	12	U.S.	7
Others		Others	
Vietnam	7559	Vietnam	6911
China	6554	China	5406
Philippines	5244	Philippines	4936
Turkey	1438	Turkey	2946
Singapore	580	Singapore	737
Macau	650	Macau	712
Total for Others	22025		21648
Others not Listed	2856		2994
Grand Total	24893		24649

Table 1 Retail and Wholesale Price Table of Cigarettes by Brands

HK\$1 (US\$1 =HK\$7.78)

Brands	Wholesale Price (200 sticks), HK\$	Retail Price (20 sticks), HK\$
Double Happiness	199	22
Chung Hwa	289	32
Peony	190	21
Salem	289	32
Mild Seven	289	32
YSL	316	35
Winston	235	26
Kent	289	32
S.E. 555	325	36
Dunhill	289	32
Cartier	361	40
Rothman	298	33
Viceroy	235	26
Winfield	203.20	28
Hilton	208	23
Capstan	199	22
Marlboro	289	32
Philip Morris	244	27
Virginia	289	32

Table 2 C.I.F. Price Table of Cigarettes by Countries in US\$/thousand sticks

Country	1999	2000	2001	% change 2000/1999	% change 2001/2000
--The World--	22.01	22.78	23.05	3.50	1.19
United Kingdom	15.41	14.64	14.67	-5.00	0.20
China	27.50	22.92	18.27	-16.65	-20.29
United States	30.09	43.44	48.66	44.37	12.02
Switzerland	23.09	23.51	25.47	1.82	8.34
Malaysia	11.04	10.84	12.12	-1.81	11.81
Germany	28.29	26.40	27.36	-6.68	3.64
Japan	23.19	18.41	15.23	-20.61	-17.27
Netherlands	18.88	23.03	24.74	21.98	7.43
Korea, South	8.53	0.00	19.97	-100	###.##
B e l g i u m - Luxembourg	27.21	16.53	25.47	-39.25	54.08

Table 3 Hong Kong Cigarette Imports by Volume, in million sticks

Country	2000	2001	% change 2001/2000	Market Share 1999	Market Share 2000
--The World--	22,339	19,683	-11.89	100%	100%
United Kingdom	6,625	5,549	-16.24	30%	28%
China	3,241	3,783	16.74	15%	19%
United States	3,740	3,189	-14.73	17%	16%
Switzerland	3,562	2,112	-40.72	16%	11%
Malaysia	2,480	1,798	-27.5	11%	9%
Germany	1,618	1,555	-3.9	7%	8%
Japan	550	1,138	106.7	2%	6%
Netherlands	235	187	-20.48	1%	1%
Korea, South	0	125	###.## 0%		1%
Belgium-Luxembourg	50	92	85.61	0%	0%

Table 4 Hong Kong Cigarette Import by Value, in USD million

Country	2000	2001	Market Share 2000	Market Share 2001	% change 2001/2000
--The World--	509	454	100	100	-10.87
United States	162	155	31.92	34.21	-4.48
United Kingdom	97	81	19.06	17.95	-16.06
China	74	69	14.60	15.24	-6.95
Switzerland	84	54	16.45	11.85	-35.77
Germany	43	43	8.39	9.38	-0.41
Malaysia	27	22	5.28	4.80	-18.93
Japan	10	17	1.99	3.82	71.04
Netherlands	5	5	1.06	1.02	-14.56
Korea, South	0	2	0.00	0.55	###.##
Belgium-Luxembourg	1	2	0.16	0.52	186.08

Table 5 Hong Kong's Cigarette Total Exports by Volume, in million sticks

Country	2000	2001	% change 2001/2000	Market Share 2000	market share 2001
--The World--	24,893	24,649	-0.98	100%	100%
Vietnam	7,559	6,911	-8.58	30%	28%
China	6,554	5,406	-17.52	26%	22%
Philippines	5,244	4,936	-5.86	21%	20%
Turkey	1,438	2,946	104.88	6%	12%
Singapore	580	737	27.08	2%	3%
Macau	650	712	9.6	3%	3%
United Arab Emirates	40	643	1507.5	0%	3%
Malaysia	706	630	-10.8	3%	3%
Cyprus	59	363	515.26	0%	1%
Korea, South	421	320	-24.06	2%	1%

Table 6 Hong Kong's Cigarette Domestic Exports by Volume, in million sticks

Country	2000	2001	% change 2001/2000	market share 2000	market share 2001
--The World--	9,500	10,573	11.29	100%	100%
Vietnam	5,737	4,869	-15.12	60%	46%
Turkey	1,438	2,946	104.88	15%	28%
Philippines	828	669	-19.21	9%	6%
China	526	597	13.44	6%	6%
Malaysia	537	536	-0.21	6%	5%
Singapore	95	294	207.79	1%	3%
United Arab Emirates	0	166	###.##	0%	2%
Cyprus	53	123	133.88	1%	1%
Macau	17	99	470.2	0%	1%
Korea, South	64	88	36.84	1%	1%

Table 7 Hong Kong's Cigarette Re-exports by Volume, in million sticks

Country	2000	2001	% change 2001/2000	market share 2000	market share 2001
--The World--	15,393	14,076	-8.56	100%	100%
China	6,028	4,809	-20.22	39%	34%
Philippines	4,416	4,268	-3.36	29%	30%
Vietnam	1,822	2,041	12.03	12%	15%
Macau	633	613	-3.03	4%	4%
United Arab Emirates	39	478	1125.64	0%	3%
Singapore	485	444	-8.48	3%	3%
Cyprus	6	240	3900	0%	2%
Korea, South	357	232	-35.01	2%	2%
Taiwan	675	189	-72.08	4%	1%
Cambodia	9	135	1400	0%	1%

Source : World Trade Atlas (Hong Kong Census & Statistics Department

Production

In 2001, Hong Kong cigarette production amounted to 11,136 million sticks, increasing 13% from 2000. The increased production was largely due to increased demand in export markets such as Turkey and China. There are three cigarette manufacturing companies in Hong Kong, namely Hong Kong Tobacco, Nanyang Brothers and Hongta. Nanyang has moved to a new plant several years ago increasing production capacity significantly. Thus, the expanded capacity allows local production to rise when demand in export markets rises. allowing Hong Ta Shan and Double Happiness are some popular brands produced locally. However, only 0.3% of locally manufactured cigarettes are consumed in Hong Kong, the rest of which are re-exported to Vietnam, Turkey, Philippines and China.

Nanyang Brothers is the largest cigarette manufacturing company in Hong Kong with a production capacity of 14 billion sticks annually. The production last year amounted to 9.7 billion implying that local production in the future can rise provided there is sufficient demand in overseas market.

As the majority of cigarettes produced locally are exported to Southeast Asian countries and China, and smokers there prefer English Virginia type, local cigarette production focuses on English Virginia type. Hong Kong entirely relies on imports for raw materials. Flue-cured tobacco leaves, which are major raw materials for local cigarette production, are imported from various countries like the U.S., China, South Africa, Canada and Zimbabwe.

Consumption

The Hong Kong government conducted a survey on the pattern of cigarette smoking in late 2000 and the result was released in August 2001. The survey found that there were 804,200 smokers in Hong Kong accounting for 14.4% of all persons aged 15 and over and daily smokers who consumed an average of 15 cigarettes a day accounted for 12.4%. The percentage of daily smokers has been decreasing over the years. According to a survey conducted in 1998, daily smokers accounted for 15% of the population aged 15 or above and the daily intake of cigarettes was 16. This phenomenon can be attributed to the anti-smoking policy initiated by the government. Actually, the peak of cigarette consumption in Hong Kong was recorded in the 1970's. The percentage of daily smokers of all persons aged 15 & over was as high as 23.3% in 1982 compared to 12.4% in 2000.

Daily smoking seemed to be more popular among older persons. Most (62.5%) daily smokers started smoking weekly at age 10-29. For reasons for starting to smoke, some 59.5% of those 692,500 daily smokers started smoking because of "influence of friends" and 22.6% , "out of curiosity".

In general, Hong Kong smokers like American cigarettes. The top ten popular brands include Marlboro, Hilton, Salem, Viceroy, Kent, Winfield, Winston, More, YSL and Virginia. All of them are American brands except Winfield which is an Australian brand. The Hong Kong economy was sluggish last year. Some cigarette distributors felt that some customers have switched to lower-priced brands. Salem used to be the second best selling brands in Hong Kong at a retail price of HK\$32/ packet. Its sales dropped to the third position in 2001, being overtaken by Hilton which sells at HK\$23/packet.

The Hong Kong government raised the duty on cigarettes in March 2001 by 5% from HK\$766 to HK\$804 per 1000 sticks. In the midst of an economic downturn, tobacco companies did not raise retail prices immediately as usual

practice. Instead they raised retail price by HK\$1 or HK\$2 for each packet in October, 2001, saying that the amount increased was not sufficient enough to cover increased cost. Actually, one of the three major tobacco companies maintains the old prices without making any adjustments in the fear of losing customers.

Hong Kong people are more health conscious. The popularity of cigarettes with lower tar yield and nicotine is on the rise. The Hong Kong smoking ordinance prohibits the sale of any cigarette containing an amount of tar exceeding 17 milligrams. According to the latest test on 89 cigarette brands conducted by the government laboratory, the average tar yields and nicotine were 11.2 mg and 0.87 mg respectively. The low tar group (0 -9 mg/cig) includes 38 brands, middle tar group (10 -14 mg/cig) 31 brands and high tar group (15 -17 mg/cig) 20 brands.

Domestic consumption for 2002 is expected to rise slightly by 1%. The rise is mainly attributed to new immigrants from China. Many of them are smokers. However, the rising acknowledgment that smoking is harmful to health and the government's anti-smoking policy are working to prevent any significant jump in cigarette consumption in Hong Kong.

Trade

In 2001, Hong Kong imported 19, 683 million of cigarettes from the world. The actual amount factoring in smuggled quantity should be as high as 21,158 million. Since cigarettes are a dutiable commodity, smuggled cigarettes exist in the market. It is estimated that smuggled cigarettes occupied about 33% of domestic consumption. In 2001, the U.S. was the largest tobacco supplier to Hong Kong in terms of value and third in terms of volume. Actually, many U.S. brands are manufactured in South East Asian countries like Malaysia and are then regarded as imports from those countries. The average C.I.F. prices of cigarettes from China and Japan declined 20% and 17% respectively, the decrease in price could probably explain the rise in imports from these countries. As Hong Kong has been suffering from a sluggish economy, consumers tend to be price responsive. Price changes would have an impact on market share.

Duties

Hong Kong imposes an excise duty on cigarettes which are sold for consumption in Hong Kong, regardless of whether they are imported or locally manufactured. This year, the Hong Kong government did not raise its duties on cigarettes. The current rate stands at HK\$804 per 1000 cigarettes sticks and HK\$1,035 per kg cigars. (HK\$7.78 = US\$1)

In 2001, the Hong Kong government received HK\$2.4 billion (US\$304 million) revenue from duties imposed on local and imported cigarettes.

Smuggling

The imposition of duties always provides an incentive for smuggling. In 2001, the government intercepted 340 million cigarettes at a value of HK\$497 million (\$64 million) with duty potential amounting to HK\$273 million (\$35 million). Compared to 2000, the quantity intercepted in 2001 rose 153%. Such achievement could probably be attributed to new deployment of the Mobile X-Ray Vehicle Scanning System at Customs points and the container ports since August 2001. The machine being worth HK\$21,000,000 (US\$2.7 million), Hong Kong is the first Asian place using this advanced system in checking container loads.

In April 2001, the Hong Kong Customs and Excise Department established an Anti-Illicit-Cigarette Task Force to

conduct intensive surveillance on cigarette smuggling activities leading to short supplies in the black market. The retail price of smuggled cigarettes has been pushed up from HK\$9 to HK\$13.

Southern China is a major source of smuggled cigarettes. Some of them are transhipped through Hong Kong to countries like Poland, Chile, Egypt, etc. In May 2001, the Hong Kong Customs intercepted a shipment of smuggled cigarettes worth HK\$29.3 million originated from southern China and intended for Dubai and Nigeria. Some of the smuggled cigarettes are destined for Hong Kong. Popular brands like Marlboro, Double Happiness, S.E. 555, Mild Seven were detected by Hong Kong Customs when being smuggled into the territory. Smuggled cigarettes tend to take a very indirect route calling on several ports before bounding for the ultimate destination. In December 2001, a shipment of 820,000 undeclared Marlboro cigarettes worth HK\$15 million were intercepted by the Hong Kong Customs. The cigarettes were manufactured in the U.S. and were then transhipped through Philippines and Taiwan before destined for Hong Kong.

In an attempt to curb cigarette smuggling, the Tobacco Institute of Hong Kong and the Customs and Excise Department have worked together since 1994 on an Informer Reward Scheme for information leading to the seizure of smuggled cigarettes. The current reward scale is as follows:

Quantity of cigarettes seized on any one occasion	Rate of Reward HK\$ (US\$1 = US\$ 7.78)
between 200,000 and 1,000,000	10,000
between 1,010,000 and 1,500,000	20,000
between 1,510,000 and 2,000,000	30,000
Between 2,010,000 and 5,000,000	50,000
Between 5,010,000 and 8,000,000	80,000
8,010,000 and above	100,000

Marketing and Policy

The Hong Kong government's established policy on tobacco control is, through a step-by-step approach, to discourage smoking, and protect public from passive smoking. A multi-pronged approach, comprising legislation, taxation, publicity, education and enforcement, has been adopted to achieve the above policy objectives.

The Smoking (Public Health) Ordinance was first enacted in 1982 to restrict the use, sale, and promotion of tobacco products. The Ordinance was last amended in 1997 further restricting tobacco advertisements and smoking areas.

Subsequent to the strong support by Legislative Council (Legco) members for the government to introduce measures to further protect the public from passive smoking during a Legco motion debate in early 2001, the Hong Kong government has proposed in June 2001 a package of legislative amendments to the Smoking (Public Health) Ordinance with a view to further strengthening the tobacco control framework in Hong Kong.

Under the proposed amendments, the statutory smoking ban will be extended to cover the following premises: all restaurants, with a grace period of 6 to 12 months; all bars and karaokes, with a longer grace period; both indoor and outdoor areas of all schools and in the indoor premises of all tertiary institutions; and all indoor workplaces, apart from those licensed premises such as bathhouses, nightclubs and mahjong places.

To further restrict the advertisement of tobacco products in the public, the proposed amendments include the following:

- revoke the current exemption on the display of tobacco advertisement at licensed hawker stalls and retail outlets employing not more than two employees;
- prescribe the size of the price board and price marker to not larger than 1,500 square centimeters and 50 square centimeters respectively, and prescribe the font size of words printed on them;
- prohibit the sale of a tobacco product in association with any merchandise, regardless it is charged or not;
- prohibit the brand name of any tobacco product, and any words in association with "tobacco" to be used in the promotion of any sponsored event;
- allow health warnings to contain pictorial and graphic contents.

Also, the proposed amendments suggest the Tobacco Control Office set up in February 2001 will be delegated with proper authority to discharge their enforcement duties effectively.

The proposed amendments once materialized will affect certain sectors such as the restaurant industry. Therefore, the government had engaged a consultant to conduct a study to assess the regulatory impact on the affected sectors.

The consultation period for the proposed amendments and the study were completed. The Health and Welfare Bureau is revising the proposed amendments and is planning to present the revised amendments together with the study to LegCo by the end 2002.